

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2009-479-WS – ORDER NO. 2010-__
MAY __, 2010

IN RE:)
Application of United Utility Companies,)
Inc., for adjustment of rates and charges)
and modifications to certain terms and)
conditions for the provision of water and)
sewer service)

**ORDER APPROVING CHARGES
FOR WATER SERVICE
SUBJECT TO CONDITIONS AND
DENYING SEWER
INCREASE**

I. INTRODUCTION

This matter comes before the Public Service Commission of South Carolina (the “Commission”) on the Application of United Utility Companies, Inc., (“UUCI” or “the Company”) for an increase in rates and charges for the provision of water and sewer services and modifications to certain terms and conditions for the provision of water and sewer service which was filed November 17, 2009. UUCI is a National Association of Regulatory Utility Commissioners (“NARUC”) Class C water and a Class B wastewater utility. UUCI’s service area includes portions of Anderson, Cherokee, Greenville, Greenwood, Spartanburg, and Union counties. UUCI provides water supply and distribution services to 97 single-family equivalent units. Per the Company’s application, wastewater collection and treatment services are provided to 1,657 residential and commercial customers.

The Application was filed pursuant to S.C. Code Ann. § 58-5-240 (Supp. 2009) and 26 S.C. Code Ann. Regs. 103-512.4.A and 103-712.4.A (1976, as amended). By letter dated November 24, 2009, the Commission’s Docketing Department instructed UUCI to publish a prepared Notice of Filing, one time, in newspapers of general circulation in the area affected by

UUCI's Application. The Notice of Filing described the nature of the Application and advised all interested persons desiring to participate in the scheduled proceedings of the manner and time in which to file appropriate pleadings for inclusion in the proceedings as a party of record. In the same letter, the Commission also instructed UUCI to notify directly, by U.S. Mail, each customer affected by the Application by mailing each customer a copy of the Notice of Filing. UUCI filed an Affidavit of Publication demonstrating that the Notice of Filing had been duly published and provided a letter certifying that it had complied with the instructions of the Commission's Docket Department to mail a copy of the Notice of Filing to all customers.

North Greenville University ("NGU" or "Intervenor") timely filed a petition to intervene in this matter. Ms. Janet P. Marks of 358 Fairwood Blvd. Union, SC 29379, intervened *pro se* but later at the hearing held on March 23, 2010, decided to withdraw her intervention. (Tr. 5 at 300). Pursuant to S.C. Code Ann. § 58-4-10(B)(Supp. 2009), the South Carolina Office of Regulatory Staff ("ORS") is a party of record in this proceeding.

The Commission appointed B. Randall Dong, Esquire, as hearing officer in Order No. 2010-123 to dispose of procedural and evidentiary matters. The Company filed a Motion to Strike portions of NGU's Petition to Intervene on January 25, 2010. In his ruling dated March 4, 2010, Hearing Officer Dong granted the motion to strike paragraphs 5, 7, and 8 as the contract-based allegations are barred by *res judicata*, and NGU has expressly abandoned any effort to seek relief on the basis of any arguments it may have with regard to the terms of its contract with the Company. The Company filed a Motion to Strike portions of Dr. James Epting's testimony on March 3, 2010, on the basis that they also constitute an effort by NGU to re-litigate previously-rejected contract-based claims. Hearing Officer Dong ruled that in light of NGU's

express disclaimer of any re-litigation of the prior contract-based claims, it was unnecessary to strike any portion of Dr. Epting's pre-filed testimony at the time.

The Commission held four local public hearings in this matter at the request of the customers of UUCI. The Commission issued Order Nos. 2010-32, 2010-80, 2010-118 and 2010-180 granting requests for local public hearings and ordered the Commission Staff to set public hearings in Greenville¹, Piedmont, Gaffney, and Anderson, South Carolina. Under these Orders, Public Hearings were set and noticed by the Commission, and the Company provided affidavits certifying that it had provided notice to its customers via U.S. Mail of the date, time and location of the local public hearings. The Commission received public comment from customers of the Company at these four public hearings.

At each local public hearing, the Company requested a continuing objection to the admission of any customer testimony consisting of unsubstantiated complaints regarding customer service, quality of service, or customer relations issues. Counsel for UUCI argued against receipt and reliance upon testimony that is not substantiated by data or scientific criteria. The Company cited Patton v. Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984), the order of the Court of Common Pleas in Tega Cay Water Service, Inc. v. S.C.P.S.C., C/A No. 97-CP-40-0923, September 25, 1998, and the Commission's Order No. 1999-191, Docket No. 96-137-WS, dated March 16, 1999, in support of its objection. ORS and NGU opposed the Company's objection on the basis that the purpose of the local public hearings is to obtain information from the customers as to the quality of service being rendered and to identify any issues of concern that are related to the instant Application. To grant the Company's objection

¹ The hearing for Greenville, South Carolina was held in Simpsonville, South Carolina at Hillcrest High School.

would render the local public hearings meaningless. ORS requested that the Commission require the Company to identify the speaker and the portion of the customer testimony in the hearing transcript that is subject to the Company's continuing objection as well as the basis for the Company's objection. The Commission did not issue a ruling on the continuing objection during the local public hearings but, as requested by the Company, withheld its ruling. On April 8, 2010 the Company filed a letter objecting to the admission of certain portions of the testimony of witnesses Conover, Wyatt, Stamoulis, Bailey, Kassab, Odom, Kindig, and Marion and to the admission of Exhibits 2(A)-2(I), 4(A), 4(B), 5, and 11.

Between the filing of the Company's Application and the date of the hearing, ORS made on site investigations of UUCI's facilities, examined UUCI's books and records and gathered detailed information concerning UUCI's operations.

On March 23, 2010, and March 24, 2010, a hearing concerning the matters asserted in UUCI's Application was held in the Commission's hearing room located at Synergy Business Park, 101 Executive Center Drive – Saluda Building, Columbia, SC. The Commission, with Chairman Fleming presiding, heard the matter of UUCI's Application. John M. S. Hoefer, Esquire, and Benjamin P. Mustian, Esquire, represented UUCI. Nanette S. Edwards, Esquire, represented the Office of Regulatory Staff. Duke K. McCall Jr., Esquire, and William H. Jordan, Esquire, represented NGU. David Butler, Esquire, served as legal counsel to the Commission.

At the outset of the hearing, the Commission heard testimony from public witnesses. A total of five public witnesses testified at the hearing.

UUCI presented the testimony of Pauline M. Ahern (Principal of AUS Consultants), Bruce T. Haas (Regional Director of Operations for United Utility Companies, Inc.), Lena

Georgiev (Manager of Regulatory Affairs at Utilities, Inc.²), John D. Williams (Director of Governmental Affairs of Utilities, Inc.), and Steven M. Lubertozzi (Director of Regulatory Accounting at Utilities, Inc.). Additionally, the Company presented Ms. Karen Sasic (Manager of Customer Service) as a rebuttal witness to the testimony the Commission received from customers of UUCI.

NGU presented the direct and surrebuttal testimony of Dr. James Epting (President, North Greenville University).

ORS presented the testimony of Dr. Douglas H. Carlisle regarding his opinion concerning a fair rate of return on equity of UUCI and the direct and surrebuttal testimony of Christina A. Stutz and Willie J. Morgan. Ms. Stutz testified concerning ORS's examinations of the application and UUCI's books and records as well as the subsequent accounting and pro forma adjustments recommended by ORS. Mr. Morgan's direct and surrebuttal testimony focused on UUCI's compliance with Commission rules and regulations, ORS's business audit of UUCI's water and wastewater systems, test-year and proposed revenue, and performance bond requirements.

II. UUCI OBJECTION TO CUSTOMER TESTIMONY

The Commission heard from the public at four local public hearings. At the first public hearing on February 23, 2010, UUCI raised an objection to the Commission receiving and relying upon customer testimony, documents, and related exhibits "consisting of unsubstantiated complaints regarding customer service, quality of service, or customer relation issues." The Company renewed this objection at the hearings on February 25, 2010, March 2, 2010, and

² UUCI is a subsidiary of Utilities, Inc.

March 8, 2010. (Tr. 1 at 8-9; Tr. 2 at 112-113; Tr. 3 at 215-216; and Tr. 4 at 238-239). As the basis for its objection, UUCI claims such testimony is not substantiated by data or scientific criteria as required by law and cannot be admitted and relied upon. In support of these arguments, UUCI cites Patton v. Public Service Commission, 280 S.C. 288, 312 S.E.2d 257 (1984), the Order in the Court of Common Pleas in Tega Cay Water Service v. S.C.P.S.C., C/A No. 97-CP-40-0923 (September 25, 1998), and the Commission's Order No. 1999-191 in Application of Tega Cay Water Service, Inc., Docket No. 96-137-WS.

However, these cases do not support UUCI's general argument that the Commission has denied the Company due process, nor do the cases stand for the proposition that the Commission's complaint process was unlawfully circumvented when the Commission heard public testimony regarding customer service complaints. The Company's objection is overruled. The Company had the opportunity to file responses to its customers' testimony, and it did so. UUCI Letter (April 8, 2010); see also Haas Direct Testimony. (Tr. 5 at 467; Tr. 6 at 822; Tr. 6 at 758). In addition, the Company had the opportunity to cross-examine witnesses and took advantage of that opportunity. (Tr. 1 at 21, 42, 52, 77, 85, 95, 51, 65, 76; Tr. 2 at 128, 136, 158; Tr. 3 at 220, 225, 227; Tr. 4 at 248, 251, 280).

The Commission ordered evening public hearings held in this case to provide a forum at a time and place convenient for customers to address matters related to the Company's application for a rate increase. Nothing in the Commission's statutory authority or regulations indicates that the customer complaint-filing process is the exclusive vehicle for raising issues regarding a company's quality of service. See 26 S.C. Code Ann. Regs. 103-824 (Supp. 2009).

ORS asserted that the challenged customer testimony is admissible for the purposes of the local public hearings. (Tr. 1 at 9-10; Tr. 2 at 112-113; Tr. 3 at 216-217; Tr.4 at 240). ORS

also argues that the cases cited by UUCI fail to support its grounds for objection. Id. In addition, ORS requested that UUCI submit letters to the Commission specifying objectionable opinions of public testimony and the specific reasons for its opposition.

The Commission holds that public testimony may be admitted into the record of these proceedings. The cases cited by UUCI merely stand for the principle that, while customer service is a factor to be considered in determining a reasonable rate of return in a rate proceeding, a reduction in rates based on poor quality of service must be supported by substantial evidence in the record, must not be confiscatory, and must remain within a fair and reasonable range. Patton, 280 S.C. at 293, 312 S.E.2d at 260 ("the Commission must be allowed the discretion of imposing reasonable requirements on its jurisdictional utilities to insure that adequate and proper service will be rendered to the customers of the utility companies.")

III. JURISDICTION

By statute, the Commission is vested with jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. § 58-5-210 (1976). S.C. Code Ann. §58-5-290 (1976) vests the Commission with the authority to change the rates of a "public utility" whenever the Commission finds, after hearing, that such rates are "unjust, unreasonable, noncompensatory, inadequate, discriminatory, or preferential or in any wise in violation of any provision of law." A public utility is defined by S.C. Code Ann. §58-5-10(4) (Supp. 2009) as including "every corporation and person furnishing or supplying in any manner heat (other than by means of electricity), water, sewerage collection, sewerage disposal and street railway service, or any of

them, to the public, or any portion thereof, for compensation." Section 58-5-290 also provides that when the Commission determines that a utility's rates are unlawful, the Commission shall determine and fix by order the "just and reasonable" rates to be thereafter charged by the public utility. The Commission finds and concludes in this proceeding that the Company is a public utility under the provisions of S.C. Code Ann. §58-5-10(4) (Supp. 2009).

IV. RATEMAKING METHODOLOGY

Under the guidelines established in the decisions of Bluefield Water Works and Improving Co. v. Public Service Commission of West Virginia, 262 U.S. 679 (1923), and Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591 (1944), this Commission does not ensure through regulation that a utility will produce net revenues. As the United States Supreme Court noted in Hope Natural Gas, the utility "has no constitutional rights to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." However, employing fair and enlightened judgment and giving consideration to all relevant facts, the Commission should establish rates which will produce revenues "sufficient to assure confidence in the financial soundness of the utility and . . . that are adequate under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties." Bluefield, 262 U.S. at 692-693.

Neither §58-5-290 nor any other statute prescribes a particular method to be utilized by the Commission to determine the lawfulness of the rates of a public utility. For ratemaking purposes, this Commission examines the relationships between expenses, revenues and investment in a historic test period because such examination provides a constant and reliable factor upon which calculations can be made to formulate the basis for determining just and reasonable rates. This method was recognized and approved by the Supreme Court for

ratemaking purposes involving telephone companies in So. Bell Tel. & Tel. Co. v. Pub. Serv. Comm'n of S.C., 270 S.C. 590, 244 S.E.2d 278 (1978).

The historic test period generally utilized is the most recent twelve-month period for which reasonably complete financial data is available and is referred to as the "test year" period. In this proceeding, the Commission concludes that the appropriate test year period is the twelve month period ending December 31, 2008. The test year is contained in the application of UUCI as well as the testimony and exhibits of the parties' witnesses in this case. The establishment of a test year is a fundamental principle of the ratemaking process. Heater of Seabrook v. Pub. Serv. Comm'n of S.C., 324 S.C. 56, 478 S.E. 2d 826 (1996). The establishment of a test year is used to calculate what a utility's expenses and revenues are for the purposes of determining the reasonableness of a rate. The test year is established to provide a basis for making the most accurate forecast of the utility's rate base, revenues, and expenses in the near future when the prescribed rates are in effect. Porter v. Pub. Serv. Comm'n of S.C., 328 S.C. 222, 493 S.E.2d 92 (1997). It also provides the Commission with a basis for estimating future revenue requirements.

This Commission allows certain accounting and pro forma adjustments to be made to the actual test year figures. Adjustments are made for: (1) items occurring in the test year that are not subject to recur in the future; (2) items of an extraordinary nature whose effects must be annualized or normalized to reflect properly their impact; and (3) other items which should be included or excluded for ratemaking purposes. Adjustments are also made for "known and measurable changes" in expenses, revenues and investments occurring after the test year. So. Bell Tel. & Tel. Co., 270 S.C. at 602, 244 S.E.2d at 284.

In order to establish just and reasonable rates the Commission must be able to properly determine the revenue requirements of the Company. The three fundamental criteria of a sound rate structure have been characterized as follows:

...(a) the revenue-requirement or financial need objective, which takes the form of a fair return standard with respect to private utility companies; (b) the fair-cost apportionment objective which invokes the principle that the burden of meeting total revenue requirements must be distributed fairly among the beneficiaries of the service; and (c) the optimum-use or consumer rationing objective, under which the rates are designed to discourage the wasteful use of public utility services while promoting all use that is economically justified in view of the relationships between costs incurred and benefits received.

Bonbright, Principles of Public Utility Rates (1961), p. 292.

In considering UUCI's Application, the Commission must consider competing interests - the interests of the customers of the system to receive quality service and a quality product at a fair rate as well as the interest of the Company to have the opportunity to earn a fair rate of return. The Commission must give due consideration to UUCI's total revenue requirements, if determinable, comprised of both the opportunity to earn a fair return on equity as well as recover allowable operating costs. To accomplish this, the Commission must review evidence admitted into the record regarding the operating revenues and operating expenses of UUCI, in order to establish adequate and reasonable levels of revenues and expenses for the Company.

V. DISCUSSION OF THE EVIDENCE RECEIVED

A. Accounting and Pro Forma Adjustments

Company witness Lena Georgiev presented direct and rebuttal testimony concerning UUCI's operating costs and pro forma adjustments made to test year expenses and to the income statement. She testified that the Company's pro-forma expenses have increased by 78% since the Company last received rate relief. (Georgiev Direct Testimony, pgs.3-5; Tr. 5 at 596-598). Per the Company's Application, for combined operations the Company seeks an increase of \$431,016 in total operating revenues of which, \$37,109 is for water operations and \$393,907 is for sewer operations. Per the Company's Application, Total Operating Revenues, including the Company's requested increase, for combined operations totals \$1,218,840 with Total Operating Expenses at \$932,927. Total Operating Revenues minus Total Operating Expenses leaves a Net Operating Income of \$285,914.

Christina Stutz, accounting witness for ORS, presented testimony that with ORS's accounting and pro forma adjustments, Total Operating Revenue equaled \$854,704, Total Operating Expenses equaled \$756,985 with Total Operating Income at \$97,719. Including customer growth of \$723, Net Income for Return is \$98,442. Total Rate Base is \$2,965,275 with a Return on Rate Base of 3.32%. After accounting and pro forma adjustments, ORS calculated the Company's operating margin, reflecting Net Income for Return less allowable interest expense, to be -0.65% for combined operations.

After including the Company's requested increase, Total Operating Revenue equaled \$1,327,930. Subtracting Total Operating Expenses of \$940,796 leaves a Net Income for Return of \$389,941 with a Return on Rate Base of 13.15%. After accounting and pro forma adjustments and including the Company's proposed increase, ORS calculated the Company's Operating Margin, reflecting Net Income for Return less allowable interest expense, to be 21.53%. (Stutz Exhibit CAS-1, Hearing Exhibit 36).

In her rebuttal testimony, Ms. Georgiev agrees with ORS Adjustments 1, 2, 4-14, 16-22, 24-29, 31-32, 36, and 38 described in Ms. Stutz's direct testimony. (Georgiev Rebuttal Testimony, pgs. 2-3; Tr. 5 at 613-614). The Company disputed ORS Adjustment 3 – Uncollectible Accounts and Adjustment 15- Rate Case Expenses. Ms. Georgiev testified that uncollectible percentages should be based on the trial balance amount of actual booked uncollectibles during the test year divided by the test year revenues and not based on the 1.50% used by ORS. (Georgiev Rebuttal Testimony, pg. 4; Tr. 5 at 615). She testified that the test year uncollectible percentage is 5.57% for water and 4.29% for sewer. (Georgiev Rebuttal Testimony, pg. 4; Tr. 5 at 616).

ORS Witness Willie Morgan testified that ORS did not compute the allowance for uncollectibles by applying 1.50% as indicated by Ms. Georgiev; instead ORS computed the uncollectible percentage by dividing the test year actual uncollectibles by the test year service revenues. ORS then applied the resulting percentage 1.04% to the proposed water and sewer revenues to arrive at an uncollectible accounts total of (\$13,503). Mr. Morgan testified that Ms. Georgiev relied on uncollectible account balances for 2009 and not the test year, 2008. (Morgan Surrebuttal Testimony, pgs. 5-6; Tr. 6 at 985-986).

Exhibit WJM-11, Hearing Exhibit 37, page 1 states that:

[D]uring the conversion to the new system, uncollectibles were reset to zero and therefore the Dec 2008 balance for uncollectibles were highly understated. In the filing, an adjustment was made to correct the under-representation of uncollectibles. The most recent corrected 2009 balance of \$36,618 was used in the filing for per books and pro-forma revenues calculation of uncollectibles. The calculation for the projected revenues is included in the filing template that is provided with item 1.8.

Based on Mr. Morgan's testimony, ORS used actual booked uncollectibles during the test year divided by the test year revenues whereas the Company appears to have used an adjusted 2009 balance. We therefore adopt ORS's Adjustment No. – 3 for Uncollectible Accounts as allocated to water operations.³

Regarding rate case expenses, Ms. Georgiev testified that ORS's Adjustment 15 does not include the costs necessary to resolve this rate proceeding. (Georgiev Rebuttal Testimony, pg. 6; Tr. 5 at 617). Ms. Stutz testified that ORS examined and included rate case expenses through March 1, 2010. (Stutz Surrebuttal Testimony, pg. 2; Tr. 6 at 952). We adopt ORS's Adjustment 15 as allocated to water operations.

The Company and ORS proposed different amortization periods for rate case expenses. The Company proposed three years, and ORS proposed five years. Ms. Stutz testified that UUCI's last three rate case filings were in 1989, 2000, and 2006. Based on the time between previous rate cases, ORS recommended a five-year amortization schedule. (Stutz Surrebuttal Testimony, pgs. 1-2; Tr. 6 at 951-952). We adopt a five-year amortization period.

B. Water Operations

The Company presented the direct and rebuttal testimony of Mr. Bruce T. Haas regarding the Company's service. Mr. Haas is responsible for all operations personnel, facilities, maintenance and capital projects as well as other operational issues. (Haas Direct Testimony, pg.2; Tr. 5 at 435).

At the local public hearing held in Simpsonville, South Carolina on February 23, 2010, several customers in the Trollingwood subdivision complained about water quality. Mrs. Conover, Mrs. Wyatt, and Elaine Odom, among others, testified that the water is not clear and in

³ We adopt this adjustment for water operations only for the reasons set forth in Section C, *infra*.

some cases has left a residue and ruined fixtures. (Tr. 1 at 14, 26-28, 29-33, 80-81). One customer, Mr. John Stamoulis, testified that he had installed a reverse osmosis system (a reverse osmosis system is a filtering system attached to the home) and as a result did not experience the same problems described by his neighbors in the public hearing. (Tr. 1 at pgs. 60-62)

ORS Witness Willie Morgan testified that UUCI provides adequate water supply services and that safe drinking water standards are being met according to recent DHEC sanitary survey reports. (Morgan Direct Testimony, pg. 6; Tr. 6 at 969). Mr. Morgan recommended that UUCI increase system flushing to at least once per month. (Morgan Direct Testimony, pg. 7; Tr. 6 at 970). Mr. Haas, testified that the Company will increase flushing to once per month as recommended by ORS; however, he stated that because the groundwater which UUCI pumps from its wells serving the Trollingwood subdivision has a very high iron content, removal of all iron is not possible (Haas Rebuttal Testimony, pg. 17; Tr. 5 at 467). He went on to state that while flushing may improve color, it will not eliminate the problem. Id.

The Company also asserts that it has invested in several improvements to the Trollingwood water system, including upgrades to its filter system. (Haas Rebuttal Testimony, pg. 17; Tr. 5 at 467). The Maryland Public Service Commission addressed a similar situation involving an affiliate of UUCI, Utilities Inc. of Maryland (“UIM”). In Re: Utilities, Inc. of Maryland, 88 Md.P.S.C. 109, 1997 WL 1015905 (May 28, 1997). In that case, the Maryland Public Service Commission (“MPSC”) found UIM needed to expedite its efforts to eradicate the service quality problems in the water system. Specifically, UIM was encountering problems with removing iron from the water before the water entered into the distribution system such that iron sediments remained either in portions of the distribution system or in some customers’ plumbing, or both. The MPSC determined that, as a condition of receiving a rate increase, UIM

increase its efforts to remove iron sediment from its service pipes and increase its efforts to assist customers in removing iron sediment from their pipes. The MPSC directed UIM to file a written report three months from the date of the order detailing customers contacted, the problems encountered, the efforts undertaken, and the results achieved. Similarly, we direct UUCI to increase flushing to once a month and to examine whether there are other steps that are not cost prohibitive that may be taken to improve the removal of iron sediment. The Company shall file a written report with the Commission and provide a copy to ORS three months from the date of this order detailing customers contacted, the problems encountered, the efforts undertaken, and the results achieved with regard to the removal of iron sediment.

C. Sewer Operations – Unbilled Revenue

During the local public hearing in Piedmont and at the hearing held at the Commission's Hearing Room in Columbia, South Carolina, testimony was received that the Company has unbilled sewer revenue. (Tr. 2 at 167- 169). One customer stated that she had neighbors who did not receive a sewer bill for two years. Id. Mr. Metts testified at the hearing before the Commission on March 23, 2010, that he and two others approached the residents of Stonecreek subdivision to sign a petition for Spartanburg Water to provide service. (Tr. 5 at 314-315; 326-327; 330-331). He found neighbors who had not been billed for sewer service for three years. (Tr. 5 at 326). Initially he testified that this occurred in December 2007 but then recalled that he surveyed his neighbors in December 2008. (Tr. 5 at 354). Mr. Davis testified that he joined Mr. Metts in the canvassing of the neighborhoods and that there were individuals receiving service who were not billed. (Tr. 5 at 341-342).

Company witness Steven Lubertozzi testified that the Company had completed a survey after hearing the testimony of Mr. Metts and Mr. Davis. (Tr. 6 at 758). Mr. Lubertozzi explained

the results of a recent vacancy survey of three subdivisions: Stonecreek, River Forest, and Canterbury. For Stonecreek, out of 231 premises, 44 residents were receiving service but not billed. For River Forest, out of 82 premises, 4 were receiving service but not billed. For Canterbury, out of 151 premises, 3 were receiving service but not billed. As a result of that survey, the Company found 51 customers out of a total 464 billable customers were receiving sewer service without being billed, roughly 11%. (Tr. 6 at 760-762). He testified that surveys are being completed by the Company of the entire system for all UI subsidiaries but had not yet been completed. (Tr. 6 at 774). Mrs. Sasic later testified that the Company conducts surveys every nine (9) months to identify customers who are not being billed. (Tr. 6 at 854). She also testified that going forward the Company would conduct a vacancy survey every month. (Tr. 6 at 854).

Given the testimony of the public witnesses, the frequency and accuracy of the Company's vacancy surveys are questionable. However, we do agree with Ms. Sasic that such surveys should be conducted every month in each subdivision.

In its Application, the Company sought an increase in sewer revenues of \$399,938. (Exhibit B, Page 4). However, based on the information from the recent vacancy survey conducted by the Company, if roughly 11% of the 1,707 service units for sewer are not being billed, that equates to roughly \$86,952 in annual sewer revenue. ORS witness Ms. Stutz testified that using ORS adjustments⁴ and Dr. Carlisle's recommended ROE of 10.06% resulted in a combined revenue increase of \$235,299. (Tr. 6 at p. 958-959). Unbilled revenue of approximately \$86,952 out of a combined revenue increase of \$235,299 is material to this case.

Additionally, Mr. Morgan testified that ORS made adjustments to reflect 299 current service connections associated with the NGU campus. (Exhibit WJM-4, Hearing Exhibit 37) Mr.

⁴ With the exception of two adjustments involving uncollectibles and rate case expenses, UUCI witness Georgiev agreed with ORS's adjustments.

Haas testified that NGU does not inform UUCI when additional facilities at its campus are connected to the collection lines at NGU. (Haas Rebuttal page 3; Tr. 5 at 453). Currently UUCI is billing NGU 249 SFEs. Nonetheless when asked as to whether an on-site survey had been completed after Mr. Morgan's direct prefiled testimony was filed on March 8, 2010, he responded "no." (Tr. 5 at 521). He acknowledged that ORS's approach is technically correct and that the Company sought to include a modification to its tariff to reference DHEC Regulation 61-67, Appendix A. Specifically, the proposed tariff language is as follows:

A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of [Health and] Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Facilities 25 S.C. Code Ann. Regs 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

Mr. Morgan explained that using the DHEC wastewater loading guidelines is appropriate to arrive at a capacity demand from these facilities and a determination of the appropriate number of SFEs. If the number of SFEs is too low, the result is that other ratepayers subsidize the system. Mr. Haas argued that a finite number of NGU students can occupy and use one facility at a time.⁵ (Haas Rebuttal pages 4-5; Tr.5 at 454-455). However, where a campus is open and not closed, as is the case here, facilities may be in use by persons other than students which is why it is appropriate and nondiscriminatory to establish the proper number of SFEs based upon capacity demand. (Tr. 6 at 999).

Dr. Epting, President of NGU, testified that NGU made a commitment to UUCI to let the Company know if another facility was added to the campus. (Dr. Epting Surrebuttal page 1; Tr. 6

⁵ We also note that the Company's proposed tariff states that a SFE shall be determined using the DHEC guidelines.

at 886). He also testified that the proposed increase to NGU would be detrimental to the operations of the university. (Tr. 6 at 878).

Given the testimony of the Company, Mr. Morgan on behalf of ORS, and the public witnesses, in particular, Mr. Metts, we find that the Company has failed to identify and bill customers who are using sewer and collection services. We note that the issue of unbilled sewer revenues was first raised at the Piedmont night hearing held on February 25, 2010. Mr. Metts testified at the hearing held at our offices on March 23, 2010, raising the same issue. On March 24th the Company through the testimony of Mr. Lubertozi provided the results of the survey of three subdivisions. (Tr. 6 at 760-762). The Company provides sewer and collection services to a total of 12 subdivisions. (Application Exhibit C Page 2 of 2). The Commission has no means of determining the appropriate revenue requirement for sewer services because it is unknown whether the billing determinants include those customers who are receiving service but are not being billed. We asked Mr. Lubertozi whether the revenue figures provided by the Company included the billing determinants for those unbilled customers. (Tr. 6 at 788). Mr. Lubertozi replied that a bill *could* have been sent to the address for the former occupant. (Tr. 6 at 788). *If* a bill had been sent, then UUCI would have booked and accrued the revenue even though it was not collected. (Tr. 6 at 817). Commissioner Wright inquired of Company witness Haas as to whether the unbilled sewer revenue would have an impact on the Company's decision to come in for a rate case:

If you're coming in for a rate increase because revenues are being squeezed for some reason, and you're not collecting what's out there, don't you think there's a real potential issue there, why there's concern about how much -- you know, how many people are out there, how much money's on the table out here that's not being collected?

(Tr. 5 at 563).

Haas responded that he understood why this would be an issue but contended that the Company suffers for its failure to bill sewer revenue and not its customers. We disagree where, as is the case here, it is unclear whether the billing determinants include those vacant homes that in actuality are occupied by customers using the system. Commissioner Wright went on to question Witness Haas as to whether the amount actually collected would have an impact on determining the future revenue requirement and therefore affect the level rates necessary to generate that future revenue requirement.

...you're approved for a certain revenue requirement, a total number of dollars to make...so you are basing your coming in for a rate case on that number, not on what you're actually collecting.

(Tr. 5 at 565-566).

Because we don't know whether the revenue requirement sought by the Company includes the billing determinants for those vacant premises where a customer is receiving service but not billed, we cannot determine the future revenue requirement and in turn, cannot set a just and reasonable rate for sewer service.

We also note that the Company was willing to accept ORS's revenue imputation of 299 SFEs for NGU, if ordered by this Commission, but was not willing to spend the time to conduct a survey of NGU to determine the appropriate number of SFEs that should be billed even while acknowledging that NGU had in the past failed to apprise the Company of added facilities. (Tr. 5 at 453-455). It is the responsibility of the Company to determine the proper number of SFEs rather than the customer or ORS.

It is apparent that the Company is seeking an increase in this case for sewer revenue in part to cover its failure to properly identify and appropriately bill its customers, both residential

and commercial. As such, this Commission cannot properly determine the future revenue requirements for sewer operations and therefore must deny the requested rate increase as to sewer operations.

D. Rate of Return on Equity

Mrs. Pauline M. Ahern, Principal of AUS Consultants, testified that the Commission should authorize the Company the opportunity to earn a range of common equity cost rate of 10.55%-12.80%. She further testified that a common equity range cost rate of 10.55%-12.80% results in a range of overall rate of return of 8.45% - 9.50% based upon the consolidated capital structure at December 31, 2008 of Utilities, Inc., the parent of United, which consisted of 53.30% total debt and 46.70% common equity, at a debt cost rate of 6.60%. (Ahern Direct Testimony pgs. 3-4; Tr. 5 at 362-363).

Ms. Ahern recommended a midpoint of 11.68% which, when applied to the Company's requested common equity ratio of 46.70% at December 31, 2008, results in a range of overall rate of return of 8.45%-9.50%. She used proxy groups consisting of six water companies and eight natural gas companies. Because there are few publically traded water/wastewater utilities, she used natural gas utilities because she felt that they had relatively comparable risk. She testified that she applied four market-based cost of common equity models: the Discounted Cash Flow (DCF) approach, the Risk Premium Model (RPM), the Capital Asset Pricing Model (CAPM), and the Comparable Earnings Model (CEM). She also applied a Business Risk Adjustment of 55 basis points (0.55%) relative to the six water companies and 65 basis points (0.65%) relative to the eight natural gas distribution companies. (Ahern Direct Testimony pgs. 4-6; Tr. 5 at 363-265).

Dr. Carlisle testified that he evaluated the return requirements of investors on the common stock of publicly-held water service companies. He then applied two well-known and generally accepted methods for determining a recommended return on equity, the Discounted Cash Flow (“DCF”) and Capital Asset Pricing (“CAP-M”) methods, with a third method, the Comparable Earnings Method (“CEM”) serving to verify and to corroborate his findings. (Dr. Carlisle Direct Testimony pg 4; Tr. 6 at 912). ORS used the capital structure submitted by the Company and provided to ORS. Dr. Carlisle testified that he used this structure because UUCI is closely integrated with its parent, so it would be difficult to determine an independently based capital structure. (Dr. Carlisle Direct Testimony pg 4; Tr. 6 at 912).

Dr. Carlisle’s proxy group consisted of companies that are classified as “water utilities” by Value Line or by *Yahoo! Finance*. He noted that they engage in water distribution or sewerage service to customers and obtain most of their revenues from utility services, and they operate mainly in the United States and have traded stock. (Dr. Carlisle Direct Testimony pgs. 5-6; Tr. 6 at 913-914).

We decline to adopt Mrs. Ahern’s common equity range cost rate of 10.55%-12.80% because it is based in part on a proxy group consisting of natural gas companies, and we are not convinced that there is sufficient evidence in the record to find that natural gas companies and water/wastewater utilities experience relatively comparable risk.⁶ Mrs. Ahern explained that under the Comparable Earnings Method (CEM) she threw out outliers for the natural gas proxy because the result was over 20%. The result for the water proxy group was over 14%. She attributes the higher common equity rates using CEM to the recent economic crisis. (Tr. 5 at

⁶ “There are differences between them; in some respects, gas can be considered riskier, and in some other respects, water can be considered riskier.” Mrs. Ahern explained that while there are similarities there are also differences between the two proxy groups. (Tr. 5 at 425).

422). Additionally, Ahern's DCF and CEM analysis relies heavily upon analysts' estimates of growth which she disputes would create a bias. (Tr. 5 at 421-422). Using her CAP-M & Risk Premium, she shows a projection of total market return in 3-5 years at 16% or more yearly market returns, which is not likely and not representative of corporate growth.

On the other hand, Dr. Carlisle's proposed range for return on equity is 9.86% -10.41% with a central midpoint of 10.06% is based on a proxy group of companies that are classified as "water utilities." Dr. Carlisle did not include a risk premium and testified that there is a dispute between experts as to whether the size of the company is a risk factor. (Tr. 6 at 933). We note that Dr. Carlisle used long-term trends in his CAP-M analysis; specifically, he used as his source for retrospective data, Ibbotson Associates' annual yearbook which contains total returns for the Standard & Poor's 500 from 1926-2008. Given the recent economic crisis, we conclude that an analysis using the DCF⁷ and the CAP-M methods, which incorporate long-term market trends, is more appropriate and does not appear to produce the "outliers" of Mrs. Ahern's analysis. Thus, we adopt Dr. Carlisle's average of DCF and CAP-M with CEM as an offset to CAP-M of 10.06%. (Exhibit DCH-17; Hearing Exhibit 35). We conclude that a return on equity of 10.06% for UUCI for its water operations is appropriate.

E. Allocation of Revenues – Water Operations

ORS Audit Exhibit CAS-2, page 2, Hearing Exhibit 37, provides the operating experience, rate base and rates of return for the test year ended December 31, 2008 for water operations. CAS-2 indicates the Company's water revenues as per the ORS's review for the test

⁷ Indeed, as testified to by Dr. Carlisle, the DCF method is in perpetuity as it is derived from the Dividend Discount Model, which treats the value of a company to an investor as the sum of the stream of expected dividend payments out to an infinite horizon. (Direct Testimony Dr. Carlisle pg.6; Tr. 6 at 914).

year, after accounting and pro forma adjustments under the presently approved schedules; the Company's operating expenses for the test year after accounting and pro forma adjustments; and the operating margin under the presently approved schedules for the test year. Column 6 of CAS-2 page 2 shows the effect of the Company's proposed rate schedule for the test year as adjusted by ORS.

Incorporating the accounting and pro forma adjustments recommended by ORS, including adjustments for uncollectibles and rate case expenses as allocated to water operations as adopted in this Order, and adopting the recommended ROE of Dr. Carlisle of 10.06%, results in a revenue requirement of \$30,140. The additional annual revenue requirement of \$30,140 is based on achieving a 10.06% ROE for water operations.

Appendix A incorporates the changes to the tariff pages for water operations that are discussed herein and sets forth the rate schedule. We adopt a base facilities charge of \$15.18 and \$7.79 per 1,000 gallons.⁸

F. Pro-Rated Billing

It became clear during the hearing that the Company had issued pro-rated bills where the monthly billing was not within a window of 27 to 33 days. (Tr. 6 at 833-834). The Company's tariffs provide a monthly rate for water and sewer service. If the monthly bill is more than 33 days, however, the Company's billing system prorated the bill resulting in an overcharge to the customer. Company witness Sasic testified that on next month's billing, the prorated charges should be reversed. (Tr. 6 at 834-835). Hearing Exhibit 33 shows twelve months' billing for Mr. Davis and that the Company did not reverse the prorated charges. (Tr. 6 at 836).

⁸ Using the highest known customer consumption data of 31,000 gallons and using the rate schedule in Appendix A the customer would be charged approximately \$256.67 for water service.

We find that the Company is not authorized to keep the prorated charges that exceed the monthly Commission approved rate for service and require the Company to refund those prorated amounts billed in 2008, 2009, and 2010 to the extent such charges were billed.⁹

G. Notification Fee

Commission Regulation 103-535.1 provides that the utility must give thirty days written notice to the customer, by certified mail with copies forwarded to DHEC and ORS, before any sewerage service may be discontinued. The Company's current rate schedule provides that the Company may impose a fee of \$4.00 to defray the clerical and mailing costs of such notices to the customers creating the cost. The Company argues that it has been authorized to impose this fee since at least 1983, and has not increased the current fee of \$4.00 since 1987. The Company seeks to increase the Notification Fee to \$24.00 because of the increase in postal rates. Mr. Williams testified that the cost of certified mail has increased from \$1.67 (\$0.22 postage + \$0.75 certified mail fee + \$0.70 return receipt fee) to \$5.54 (\$0.44 postage + \$2.80 certified mail fee + \$2.30 return receipt fee) since 1987. Additionally, he states that the Company's administrative costs to process and provide this required notice is \$18. (Williams Direct Testimony pages 7; Tr. 6 at 678). ORS objected to the proposed \$24.00 rate and instead proposed \$6.00. ORS notes that the fee imposed by the U.S. Postal Service for Certified/Return Receipt mailings increased from \$3.74 in 2001 to \$5.54 in 2009. Any increased cost associated with administrative/clerical time incurred by UUCI to provide the required notices is already included in the cost of administrative/clerical time in its expenses under general expenses for salary and wages. Therefore, ORS recommended that the notification fee be \$6.00 for each of the required certified mailings and not \$24.00. (Morgan Direct Testimony pg 11; Tr. 6 at 695). UUCI argued that to

⁹ The Company submitted late-filed Hearing Exhibit No. 34, Part 2 and indicated that credits either were issued or will be issued to customers who were overcharged.

do so would in effect require other customers to subsidize the costs associated with sending out the Notification Fee and noted that another utility, Palmetto Utilities, Inc., has an approved rate of \$25.00. (Tr. 6 at 696; 706-707).

ORS witness Morgan testified that ORS is concerned UUCI is attempting to recover the same administrative and clerical costs twice with the increase in the customer notification fee. He noted that Mr. Williams did not demonstrate in his rebuttal testimony that the administrative and clerical costs associated with sending customer notices are above and beyond the administrative and clerical costs included in its rate increase request or that additional employees are needed or will be hired by UUCI to perform this function. (Morgan Surrebuttal Testimony pg 6; Tr. 6 at 986).

We approve the rate of \$6.00 as a Notification Fee per notification letter that the Company is required to make in compliance with Commission Regulation 103-535.1. The \$18.00 administrative cost is unsubstantiated and appears inordinately high, and we cannot rely on a rate approved for another utility as justification for the costs for this utility.

H. Modifications to Certain Terms and Conditions of Water and Sewer Service Tariffs

The Company proposed several modifications to the terms and conditions of its water and sewer service tariffs. The first modification is to the rate schedule provisions pertaining to service provided to rental units and is set out at page one (1) of the water schedule and page four (4) of the sewer schedule. Since the Company's last rate case in 1996, the Legislature has enacted statutory provisions restricting the ability of any utility – whether governmental or investor owned – to require a landlord in a building with three or fewer rental units and served by

a single meter or connection to be financially responsible for utility service provided to a tenant that is the utility's customer. The proposed modification is intended to bring the Company's rate schedule into line with the current law and to reflect that, where rental premises with single connections or meters have three or fewer tenants, the Company will not enter into customer relationships with tenants. No party objected to the proposed modification. We approve the proposed language modification.

The second proposed modification is to the water rate schedule and consists of a new section six (6) beginning on page two (2). Regulations promulgated by DHEC under the State Safe Drinking Water Act require the elimination of cross connections to public water systems which have the potential for contaminating safe drinking water. Typically, a cross-connection consists of a separate water irrigation line which may or may not be metered. The DHEC regulations prohibit any person from installing, permitting to be installed or maintaining a cross-connection unless there is an approved backflow prevention device installed between the public water system and the potential source of contamination. DHEC regulations further require that certain backflow prevention devices be inspected annually by a DHEC certified tester. The modification to the Company's rate schedule provides notice to customers that any cross-connections must be addressed by an approved backflow prevention device, that customers are responsible for the annual inspection, and that customers must provide to the Company the report and results of inspection no later than June 30th annually. In the event that a customer does not comply with the requirement to perform annual inspections, after 30 days' written notice, the Company may disconnect water service.

ORS does not oppose the proposed language modification requiring water customers to conduct cross connection testing pursuant to 24A S.C. Code Ann. Regs. 61-58.7.F (8). However,

ORS witness Willie Morgan testified that this non-opposition is predicated upon the condition that the Company be required to provide customers a 30-day advance written notice of the recurring annual date by which the customers must have their backflow prevention device tested by a licensed, certified tester. Furthermore, the Company should be required to include a reference to the DHEC website and the Company's phone number on the notice to respond to customer inquiries. The Company objected to ORS's position that advance written notice to customers be provided. However, we approve the language modification subject to the conditions proposed by ORS. We find that the Company should provide customers a 30-day advance written notice of the recurring annual date by which the customer must have their backflow prevention device tested by a licensed, certified tester along with the Company's contact information.

The third modification is to specify that, for the purposes of determining tap fees and the appropriate monthly service fee, the Company will follow the pertinent DHEC regulations relating to SFEs. By following these guidelines, the Company is able to provide uniformity in the calculation of its charges. Additionally, the Company proposes to include language pertaining to the terms and conditions for extensions of its facilities for service. This language clarifies that potential customers who are willing to pay all costs associated with interconnecting with the Company and agree to receive service in accordance with the applicable guidelines and standards shall not be denied service unless sufficient capacity is not available on the Company's system or unless such service is restricted by DHEC or other governmental entity. Additionally, this language clarifies that the Company is not obligated to construct additional capacity which would be required to serve a customer in the absence of an agreement for the payment of costs. No party objected to the proposed language modification. We approve the proposed language

modification to specify that the Company will follow pertinent DHEC regulations relating to SFEs for determining the appropriate monthly service and tap fee.

The Company submitted proposed language regarding electronic billing. Mr. Williams testified that electronic billing will provide customers with additional billing options which will allow for electronic billing and payment. Electronic billing would not be required of all customers, but would only be provided as a service if a customer chooses and when it is within the capability of the Company. Mr. Williams testified that the customers would appreciate the opportunity to receive and pay their bills online and that they would benefit from the ease and convenience of maintaining their utility account online. ORS witness Willie Morgan testified that ORS is not opposed to the proposed addition of language offering an electronic bill to the customer. ORS's non-opposition is predicated upon the condition that the Company be required to provide customers a monthly electronic notice via email of the bill statement availability and the web address of its location. We approve the proposed language modification to allow the Company to offer its customers electronic billing but require the Company to provide its customers a monthly electronic notice via email of the bill statement availability and the web address of its location. We note the Company did not object to this requirement.

VI. FINDINGS OF FACT AND CONCLUSIONS OF LAW

After thorough consideration of the entire record in the UUCI hearing, including the testimony and all exhibits, and the applicable law, the Commission makes the following findings of fact and conclusions of law:

1. UUCI is a corporation organized and existing under the laws of the State of South Carolina and authorized to do business in the State of South Carolina.

2. UUCI is a public utility as defined by S.C. Code Ann. §58-5-10(4) (Supp 2009), providing water and sewer service to the public for compensation in certain areas of South Carolina and is subject to the jurisdiction of the Commission.

3. By statute, the Commission is vested with jurisdiction to supervise and regulate the rates and service of every public utility in this State, together with the duty, after hearing, to ascertain and fix such just and reasonable standards, classifications, regulations, practices and measurements of service to be furnished, imposed, observed and followed by every public utility in this State. S.C. Code Ann. § 58-5-210 (1976).

4. UUCI's current rates and charges for both water and sewer were approved by the Commission in Docket No. 2000-212-W/S dated May 12, 2004.

5. The appropriate test year period for purposes of this proceeding is the twelve month period ending December 31, 2008. No party contested the use of this test year as proposed by UUCI in its application.

6. In accordance with the Application filed in this case, the Commission will use the rate of return on rate base methodology in determining the reasonableness of UUCI's proposed rates. The Public Service Commission has wide latitude in determining an appropriate rate-setting methodology. Heater of Seabrook, 324 S.C. at 64, 478 S.E.2d at 830. No party has raised any objection to the use of the return on rate base methodology in this proceeding.

7. By its application, UUCI requested an increase in rates and charges for its combined operations to produce net operating income of \$431,016 (Exhibit B to Application). Of which, \$37,109 is for water operations and \$393,907 is for sewer operations. By the use of accounting and pro forma adjustments, ORS computed Net Income for Return of the requested

increase to be \$389,941 (total operating revenues of \$1,327,930 less operating expenses of \$940,796 and adding customer growth of \$2,807). Both UUCI and ORS calculations of the amount of the proposed increase were based on the Proposed Schedule of Rates and Charges contained in Exhibit A to the Companies Application.

8. Based on the testimony of Company witness Lubertozi, ORS witness Mr. Morgan, and the public witnesses, including Mr. Metts and Mr. Davis, the Commission is unable to determine a revenue requirement for sewer operations. Without a revenue requirement, the Commission cannot establish just and reasonable rates for sewer operations; therefore, the Commission grants no increase for sewer operations.

9. Based on the testimony received from the Company, ORS witnesses Mr. Morgan and Ms. Stutz, and the public witnesses in the Trollingwood subdivision, the Commission has determined that a revenue requirement of \$30,140 is appropriate. Per its Application, the Company sought an increase in revenue of \$37,109 for water operations. As part of this increase, the Company is directed to file a written report with the Commission and provide a copy to ORS three months from the date of this Order detailing customers contacted, the problems encountered, the efforts undertaken, and the results achieved with regard to the removal of iron sediment. Additionally, the Company is directed to increase flushing to once per month. No party offered testimony regarding unbilled water service revenues.

10. The Commission finds that the conclusions and their bases for establishing an appropriate range for a rate of return on equity for UUCI contained in the testimony of ORS witness Dr. Douglas Carlisle are accurate and compelling. Dr. Carlisle concluded that 9.86% was a reasonable low point and that the top end of his range should be no more than 10.41%. The

central point of his range is 10.06%. Dr. Carlisle used the structure submitted by the Company of 53.3% debt and 46.7% equity. The Commission therefore finds that a just and reasonable return on equity for UUCI for its water operations under the current application and based upon the need for improvement in the clarity and esthetics of the water as well as the evidence and testimony provided by ORS economist Dr. Douglas Carlisle to be 10.06%.

11. The Returns on Rate Base for UUCI for water operations during the test year were calculated by ORS Witness Stutz, after recommended accounting and pro forma adjustments, to be -2.57% for the test year and 11.71% after calculating the Company's Proposed Increase (Audit Exhibit CAS-2, Hearing Exhibit 36). At the hearing, UUCI Witness Georgiev stated that the Company accepted the accounting adjustments proposed by ORS with the exception of adjustments to uncollectibles and rate case expenses. We approve ORS's adjustments and find the appropriate return on rate base for UUCI to be -2.57% for water operations for the test year ended December 31, 2008 and to be 8.21% for water operations.

12. ORS calculated UUCI's test year total operating revenue for water operations, as adjusted, of \$49,523. Allowing for a revenue increase of \$30,140 and incorporating accounting and pro forma adjustments equates to total operating revenues of \$79,663 for water operations. The Commission finds that the appropriate total operating revenues of UUCI during the test year under present rates and after accounting and pro forma adjustments are \$79,663.

13. The Commission finds that the operating expenses for UUCI for the test year for water operations under present rates and after the appropriate accounting and pro forma adjustments are \$53,951. ORS Witness Stutz offered testimony and exhibits detailing adjustments. See Audit Exhibit CAS-2, Hearing Exhibit 36. Revenue impact and customer

growth analysis were performed by ORS and testified to by ORS Witness Morgan and were adopted by Witness Stutz in her calculations. Details of the revenue and customer growth analysis are shown on the Exhibits WJM-3 and WJM-4, Hearing Exhibit 37. Rate case expenses included in the net income for return were those received by ORS as of March 1, 2010.

14. The majority of ORS Witness Stutz's testimony referred to her Audit Exhibit CAS-4 – "Explanation of Accounting and Pro Forma Adjustments," Hearing Exhibit 36. The witness explained in detail the thirty-eight (38) adjustments proposed by ORS. Witness Stutz also testified regarding Audit Exhibit CAS-2 – "Operating Experience, Rate Base and Rates of Return - Water Operations," Hearing Exhibit 36. Within that Exhibit, Column (1) shows the per company application figures of UUCI as of December 31, 2008. Column (2) shows the proposed accounting and pro forma adjustments designed to normalize UUCI's per company application figures (described in Audit Exhibit CAS-4) as allocated to water operations. Column (3) shows the result of a normalized test year for UUCI by adding columns (1) and (2). The total income for return for water operations is based on the total operating revenues less total operating expenses. The operating margin is computed by dividing the net income for return less interest expense by the total operating revenues.

15. The Commission finds the accounting and pro forma adjustments proposed by ORS witnesses Stutz and Morgan in each witness's direct and surrebuttal testimony as allocated to water operations are appropriate for rate making purposes. See Hearing Exhibits 36, 37, and 38.

16. The Commission finds that Ms. Stutz's Audit Exhibit CAS-5, Hearing Exhibit 36, shows the appropriate depreciation expenses and amortization for rate making purposes and adopts as set forth in Audit Exhibit CAS-2 for water operations the allocated portion of depreciation

expenses and amortization. Audit Exhibit CAS-6, Hearing Exhibit 36, shows the accurate computation of the income tax adjustment and adopts the allocated portion for water operations as set forth in Audit Exhibit CAS-2.

17. The Commission finds that by accepting all the adjustments as proposed by witnesses Stutz and Morgan as allocated to water operations, the Company's current return on rate base for water operations is -2.57% and its current operating margin is -21.15% under UUCI's presently approved rates and charges. Therefore, the Commission finds that an adjustment of UUCI's rates and charges for water operations is warranted. An increase in rates and charges appears justified for the Company to provide its residential and commercial customers with safe and adequate water services and to improve clarity.

18. When applied to the as adjusted test year operations, the rates requested in the Company's application result in a Return on Rate Base of 11.71% and an operating Margin of 15.81% for water operations.

19. In order for UUCI to have the opportunity to achieve a Return on Equity of 10.06% on water operations, the income requirement for UUCI, using the adjusted operating revenues and operating expenses approved herein is \$79,663.

20. In order for UUCI to have the opportunity to earn the herein approved Return on Equity of 10.06% for water operations, UUCI must be allowed additional annual water service revenues of \$30,140.

21. To achieve additional annual water service revenues of \$30,140 and an annual income requirement of \$79,663, the rates and fees as set forth in Appendix A attached hereto are approved and found to be just and reasonable.

22. The appropriate operating margin for UUCI based upon the herein approved adjustments and rates is 10.18%. See S.C. Code Ann. § 58-5-240(H).

23. We direct the Company to refund those pro-rated charges billed to customers in 2008, 2009, and 2010, where the Company collected more than the Commission approved monthly service rates. The Company shall file a report within sixty (60) days of the date of this Order with the Commission and a copy to ORS detailing the credits or refunds that were issued to customers.

24. This Commission required UUCI to keep its books and records in accordance with the NARUC Uniform System of Accounts in Order No. 2002-214. The Company recently converted its books and records to a new accounting system. Ms. Stutz testified that the Company is not maintaining its books and records in accordance with the NARUC Uniform System of Accounts. (Stutz Direct and Surrebuttal pages 12 and 2; Tr. 6 at 947 and 952). The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

25. Section 58-5-720 (Supp. 2009) requires that UUCI maintain bonds for water and wastewater operations. ORS Witness Morgan testified that the face amount of UUCI's bond should be \$100,000 for water operations and \$350,000 for wastewater operations. We find that UUCI's bond should be in the amount of \$100,000 for water operations and in the amount of \$350,000 for wastewater operations.

26. We adopt certain modifications to the terms and conditions of water and wastewater service. We accept the Company's proposed language regarding service provided to rental unit; we accept the Company's proposed language that it will follow pertinent DHEC

regulations relating to SFEs; and we accept the Company's proposed language as modified by ORS regarding cross-connects; and we accept the Company's proposed language regarding electronic billing with ORS's condition that the Company provide customers a monthly electronic notice via email of the bill statement availability and the web address of its location.

27. We find that a Notification Fee of \$6.00 is reasonable due to the increased cost of postage.

IT IS THEREFORE ORDERED THAT:

1. UUCI is entitled to rate relief for its water operations such that it may make improvements to the clarity and esthetics of the water. UUCI shall be entitled to charge rates and fees as contained in Appendix A to obtain a Return on Equity of 10.06% for water operations and in order to obtain an operating margin of 10.18% for water operations.

2. There is no increase to rates for sewer operations; however, the Notification Fee is increase to \$6.00 per notice.

3. The Company shall continue to maintain current performance bonds in the amounts of \$100,000 for water operations and \$350,000 for wastewater operations pursuant to S.C. Code Ann. § 58-5-720 (Supp. 2009).

4. The rates and schedules in Appendix A attached hereto are hereby adopted by the Commission. The Company is to provide thirty (30) days' advance notice of the increase to customers of its water services prior to the rates and schedules being put into effect for service rendered. The schedules shall be deemed to be filed with the Commission pursuant to S.C. Code Ann. §58-5-240 (Supp. 2009).

5. The Company's books and records shall be maintained according to the NARUC Uniform System of Accounts. The Company is directed to make any necessary adjustments to its accounting system to conform to the NARUC Uniform System of Accounts.

6. The Company shall refund those pro-rated charges billed to customers in 2008 and 2009 where the Company collected more than the Commission approved monthly service rates. The Company shall file a report with the Commission and a copy to ORS detailing the credits or refunds issued to customers within sixty (60) days of the date of this Order.

7. The Company shall file a written report with the Commission and provide a copy to ORS three months from the date of this order detailing customers contacted, the problems encountered, the efforts undertaken, and the results achieved with regard to the removal of iron sediment. Additionally, the Company shall increase flushing to once per month.

8. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Elizabeth E. Fleming, Chairman

ATTEST:

John E. Howard, Vice-Chairman

WATER

1. Monthly Charges

Residential –

Monthly charge per single-family house, condominium, mobile home or apartment unit:

Basic Facilities Charge	\$15.18 per unit
Commodity Charge	\$7.79 per 1,000 gallons or 134 cft.

Commercial

Basic Facilities Charge	\$15.18 per SFE
Commodity Charge	\$7.79 per 1,000 gallons or 134 cft.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

When, because of the method of water line installation utilized by the developer or owner, it is impractical to meter each unit separately, service will be provided through a single meter, and consumption of all units will be averaged; a bill will be calculated based on that average and the result multiplied by the number of units served by a single meter.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master water meter or a single water connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. Non-Recurring Charges

A) Water service connection charge per single-family equivalent*	\$100.00
B) Plant Impact fee per single-family equivalent*	\$400.00

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non-residential customer is less than one (1). If the equivalency rating of a non residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the water system is requested.

3. Account Set-Up and Reconnection Charges

- a. Customer Account Charge - for new customers only. \$25.00
- b. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of thirty five dollars (\$35.00) shall be due prior to the Utility reconnecting service which has been disconnected for any reason set forth in Commission Rule R.103-732.5. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Nonrecurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Cross Connection Inspection

Any customer installing, permitting to be installed, or maintaining any cross connection between the Utility's water system and any other non-public water system, sewer or a line from any container of liquids or other substances, must install an approved back-flow prevention device in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F (Supp. 2008), as may be amended from time to time. Such a customer shall annually have such cross connection inspected by a licensed certified tester and provide to Utility a copy of a written inspection report and testing results submitted by the certified tester in accordance with 24A S.C. Code Ann. Regs. R.61-58.7.F (Supp. 2008), as may be amended from time to time. Said report and results must be provided by the customer to the Utility no later than June 30th of each year. If a customer fails to comply with the requirement to perform annual inspections, the utility may, after 30 days' written notice, disconnect water service. The Utility shall provide affected customers with an advanced annual notification of such certification requirement.

7. Electronic Billing and Electronic Payment

If requested by the customer in writing and within the capability of the Utility, the Utility may, in lieu of mailing a paper copy, provide an electronic bill to the customer on the Utility's website. The electronic bill shall contain the same content and be presented in the same or a similar format as a bill delivered to the customer pursuant to Commission Rule R. 103-732.2 (Supp. 2008) as may be amended from time to time. Late payment charges will not be triggered until twenty-five (25) days after the Utility issues the electronic bill and it leaves the control of the Utility or its billing agent. The Utility must provide notice to the customer that the bill form is available for review within twenty-four of its issuance and the web address of its location.

8. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its water system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless water supply is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has for any reason restricted the Utility from adding additional customers to the serving water system. In no event will the Utility be required to construct additional water supply capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding water supply capacity to the affected water system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities - 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2008), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

SEWER

1. Monthly Charges

Residential –

Monthly charge per single-family house, condominium, villa, or apartment unit: \$48.24 per unit

Mobile Homes - monthly charge \$35.58 per unit

Commercial - monthly charge per single-family equivalent* \$48.24

Charge for Sewage Collection Service Only

When sewage is collected by the Utility and transferred to a government body or agency, or other entity for treatment, the Utility's rates are as follows:

Residential - monthly charge per single-family house, condominium, mobile home, or apartment unit \$24.66 per unit

Commercial - monthly charge per single-family equivalent* \$24.66

The Utility will also charge for treatment services provided by the government body or agency or other entity. The rates imposed or charged by the government body or agency or other entity providing treatment will be charged to the Utility's affected customers on a pro rata basis, without markup. Where the Utility is required under the terms of the 201/208 Plan to interconnect to the sewage treatment system of a government body or agency or other entity and tap/connection/impact fees are imposed by that entity, such tap/connection/impact fees will be charged to the Utility's affected customers on a pro rate basis, without markup.

Commercial customers are those not included in the residential category above and include, but are not limited to, hotels, stores, restaurants, offices, industry, etc.

The Utility will, for the convenience of the owner, bill a tenant in a multi-unit building, consisting of four or more residential units, which is served by a master sewer meter or a single sewer connection. However, in such cases all arrearages must be satisfied before service will be provided to a new tenant or before interrupted service will be restored. Failure of an owner to pay for services rendered to a tenant in these circumstances may result in service interruptions.

2. Non-recurring Charges

- | | |
|--|----------|
| A) Sewer service connection charge per single-family equivalent* | \$100.00 |
| B) Plant Impact fee per single-family equivalent* | \$400.00 |

The nonrecurring charges listed above are minimum charges and apply even if the equivalency rating of a non-residential customer is less than one (1). If the equivalency rating of a non-residential customer is greater than one (1), then the proper charge may be obtained by multiplying the equivalency rating by the appropriate fee. These charges apply and are due at the time new service is applied for, or at the time connection to the sewer system is requested.

3. Notification, Account Set-Up and Reconnection Charges

a. Notification Fee

A fee of six dollars (\$6.00) shall be charged each customer per notice to whom the Utility mails the notice as required by Commission Rule R. 103-535.1 prior to service being discontinued. This fee assesses a portion of the clerical and mailing costs of such notices to the customers creating the cost.

- b. Customer Account Charge: A fee of twenty-five dollars (\$25.00) shall be charged as a one-time fee to defray the costs of initiating service. This charge will be waived if the customer also takes water service.

- c. Reconnection Charges: In addition to any other charges that may be due, a reconnection fee of two hundred fifty dollars (\$250.00) shall be due prior to the Utility reconnection service which has been disconnected for any reason set forth in Commission Rule R.103-532.4. The amount of the reconnection fee shall be in accordance with R.103-532.4 and shall be changed to conform with said rule as the rule is amended from time to time. Customers who ask to be reconnected within nine months of disconnection will be charged the monthly base facility charge for the service period they were disconnected.

4. Billing Cycle

Recurring charges will be billed monthly in arrears. Non-recurring charges will be billed and collected in advance of service being provided.

5. Late Payment Charges

Any balance unpaid within twenty-five (25) days of the billing date shall be assessed a late payment charge of one and one-half percent (1 1/2 %) for each month, or any part of a month, that said payment is late.

6. Electronic Billing and Electronic Payment

If requested by the customer in writing and within the capability of the Utility, the Utility may, in lieu of mailing a paper copy, provide an electronic bill to the customer on the Utility's website. The electronic bill shall contain the same content and be presented in the same or a similar format as a bill delivered to the customer pursuant to Commission Rule R. 103-532.1 (Supp. 2008) as may be amended from time to time. Late payment charges will not be triggered until twenty-five (25) days after the Utility issues the electronic bill and it leaves the control of the Utility or its billing agent. The Utility must provide notice to the customer that the bill form is available for review within twenty-four of its issuance and the web address of its location.

7. Toxic and Pretreatment Effluent Guidelines

The Utility will not accept or treat any substance or material that has not been defined by the United States Environmental Protection Agency ("EPA") or the South Carolina Department of Environmental Control ("DHEC") as a toxic pollutant, hazardous waste, or hazardous substance, including pollutants falling within the provisions of 40 CFR 129.4 and 401.15. Additionally, pollutants or pollutant properties subject to 40 CFR 403.5 and 403.6 are to be processed according to pretreatment standards applicable to such pollutants or pollutant properties, and such standards constitute the Utility's minimum pretreatment standards. Any person or entity introducing any such prohibited or untreated materials into the Company's sewer system may have service interrupted without notice until such discharges cease, and shall be liable to the utility for all damages and costs, including reasonable attorney's fees, incurred by the utility as a result thereof.

8. Construction Standards

The Utility requires all construction to be performed in accordance with generally accepted engineering standards, at a minimum. The Utility from time to time may require that more stringent construction standards be followed.

9. Extension of Utility Service Lines and Mains

The Utility shall have no obligation at its expense to extend its utility service lines or mains in order to permit any customer to connect to its sewer system. However, anyone or entity which is willing to pay all costs associated with extending an appropriately sized and constructed main or utility service line from his/her/its premises to any appropriate connection point, pay the appropriate fees and charges as set forth in this rate schedule, and comply with the guidelines and standards hereof, shall not be denied service unless sewer capacity is unavailable or unless the South Carolina Department of Health and Environmental Control or other government entity has restricted the Utility from adding for any reason additional customers to the serving sewer system. In no event will the Utility be required to construct additional

wastewater treatment capacity to serve any customer or entity without an agreement acceptable to the Utility first having been reached for the payment of all costs associated with adding wastewater treatment capacity to the affected sewer system.

* A Single Family Equivalent (SFE) shall be determined by using the South Carolina Department of Health and Environmental Control Guidelines for Unit Contributory Loadings for Domestic Wastewater Treatment Facilities - 25 S.C. Code Ann. Regs. 61-67 Appendix A (Supp. 2005), as may be amended from time to time. Where applicable, such guidelines shall be used for determination of the appropriate monthly service and tap fee.

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2009-479-WS

IN RE: Application of United Utility Companies,
 Incorporated for Adjustment of Rates and)
 Charges and Modification to Certain Terms) **CERTIFICATE OF**
 and Conditions for the Provision of Water and) **SERVICE**
 Sewer Service)

This is to certify that I, Chrystal L. Morgan, have this date served one (1) copy of the **PROPOSED ORDER** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

John M.S. Hoefer, Esquire
Benjamin P. Mustian, Esquire
Willoughby & Hoefer, P.A.
Post Office Box 8416
Columbia, SC, 29202

Mr. John P. Hoy, Chief Regulatory Officer
United Utility Companies, Incorporated
2335 Sanders Road
Northbrook, IL 60062

Alvin F. Simpson, Jr.
411 Killion Drive
Gaffney, SC, 29340

Janet P. Marks
358 Fairwood Blvd.
Union, SC, 29379

Rica Rose Conover, Secretary/Treasurer
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207 Rivendell Drive
Pelzer, SC , 29669

Robert D. Green , President
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Chrystal L. Morgan

April 23, 2010
Columbia, South Carolina